

PENSION FUND COMMITTEE – 5 SEPTEMBER 2014

PENSION FUND INVESTMENT AND ADMINISTRATION EXPENSES OUTTURN REPORT FOR THE YEAR ENDED 31 MARCH 2014.

Report by Chief Finance Officer

Introduction

1. In March 2013 the Pension Fund Committee agreed a budget in respect of the Pension Fund's investment and administration expenses for the 2013/14 financial year. The production of an annual budget is in accordance with a recommendation of best practice set out in the CIPFA Principles for Investment Decision Making in the Local Government Pension Scheme.
2. Annex 1 compares the Investment Management and Scheme Administration outturn figures against the budget and shows the variations against each budget head. The reasons for any material variations are explained below.

Scheme Administration Expenses

3. **Employee Costs** were underspent by a total of £147,000. In the Administration team this was due to vacancies within the team during the course of the year, two members of staff taking unpaid leave for four and six months, plus staff returning from maternity/paternity leave on a part-time basis. There were no new staff appointed to provide training for, and a training session covering the new regulations was provided in-house at a considerably cheaper rate. The Investment team also had vacancies for the majority of the year.
4. The budget for **Actuarial Fees** was underspent because the triennial actuarial valuation wasn't as costly as first estimated.
5. **Audit Fees** were underspent due to a £29,000 rebate received on the audit charges.

Investment Management Expenses

6. **Fund Management Fees.** Although a budgeted sum is agreed for this item it is not possible to accurately estimate the annual charges because they are linked to the market values of the assets being managed, which continually fluctuate. The actual spend on fund management fees for 2013/14 was £585,000 above the budget forecast. The main variation was due to an overspend on the equity fund manager's fees. Equity markets performed

strongly during 2013/14 and the value of the equity portfolios held by Baillie Gifford and Wellington, plus the pooled funds held by Legal & General and UBS, rose above the forecasted figures which were used to calculate the management fees budget.

7. The **Global Custody Fee** is dependent upon the market value of assets held, the type of investments and the number and type of trades arranged by the fund managers. It is therefore not possible to accurately predict the total fee for the year. The Global Custody Fee budget was underspent by £23,000 during 2013/14. This was due to the appointment of BNP Paribas from September 2013 onwards. BNP Paribas have a lower fee schedule than the outgoing custodian BNY Mellon, whose pricing schedule was used to calculate the budgeted spend.
8. The **Pension Fund Committee** budget that falls under Investment Management Expenses was underspent by £12,000 as all external training sessions attended by members during the year were free of charge. In addition the training event held in-house was delivered by Fund Managers and advisors without any additional charge to the Fund.
9. The income derived from **Securities Lending** was lower than forecast, in part due to the stock lending program not being operational during the transition from BNY Mellon to BNP Paribas.

RECOMMENDATIONS

10. **The Committee is RECOMMENDED to receive the report and note the out-turn position.**

Lorna Baxter
Chief Finance Officer

Background Papers: None

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July 2014

Pension Fund Budget Outturn for the Financial Year ended 31 March 2014

	Budget £'000	Actual £'000	Variance £'000
Administrative Expenses			
Employee Costs			
- Administrative	838	742	-95
- Investment	194	142	-52
Support Services Including ICT	257	257	-0
Actuarial Fees	90	68	-22
External Audit Fees	50	21	-29
Internal Audit Fees	14	14	-0
Printing & Stationery	41	33	-8
Advisory & Consultancy Fees	133	126	-7
Other - Pension Fund Committee	8	8	0
Other;			
- Postage	8	11	3
- Storage	10	6	-4
- Subscriptions & Memberships	35	22	-13
- Misc Expenditure	31	23	-7
- Misc Income	0	-5	-5
Total Administrative Expenses	1,708	1,469	-239
Investment Management Expenses			
Management Fees	2,900	3,485	585
Custody Fees	100	77	-23
Performance Monitoring Services	13	18	5
Other - Pension Fund Committee	42	31	-11
Total Investment Management Expenses	3,055	3,611	556
Total Investment Management & Scheme Administration Expenses	4,763	5,080	317
Less Stock Lending Income	-60	-15	45
Total Expenses as per Budget	4,703	5,065	362